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Interest rates off in edgy day

Markets appear satisfied with Thiessen — for now

By Greg Ip
The Financial Post

INTEREST RATES declined further yesterday but markets remained extremely volatile, traders said.

The C$ climbed as high as US72.52¢ at the opening from Tuesday's close of US72.27¢, but quickly ran into resistance, falling back to close at US72.12¢.

On Tuesday, the C$ jumped US0.66¢ from a seven-year low Monday as speculators covered short positions in anticipation of a confidence-building speech from Bank of Canada Governor Gordon Thiessen.

Markets appear satisfied, at least for now, with his reaffirmed commitment to price stability and stable markets.

Tuesday's rally "was simply a bullish retracement in a bear market," one C$ trader said. "I don't think we're out of the woods."

The C$'s early strength caused "when-issued" three-month treasury bill yields to plummet to 5.78% from 5.96% at Tuesday's Bank of Canada rate setting. That prompted the central bank to intervene, selling cash T-bills at 5.65%, which stemmed the drop in interest rates.

"It definitely sent a message [the bank] was worried about the C$ getting dumped with the rally in the T-bills," the trader said.

Today, the Finance Department will publish the level of official international reserves as of the end of March. The median expectation of economists surveyed by MMS International is a drop in reserves of about US$2 billion from the end of February to about US$10.5 billion, reflecting central bank sales of US$s for C$s to slow the Canadian currency's slide. (The drop would be smaller if the government borrowed foreign currencies during the month to add to reserves.)

Andrew Pyle, chief Canadian economist at MMS, said markets might like to see a big drop in reserves despite the lower level, since it would indicate a vigorous commitment to defending the C$. Conversely, a smaller-than-expected drop might signal a lukewarm defence of the C$.

Pyle said reserves might come under severe strain as the Quebec election approaches and the C$ comes under more pressure.

Dominique Vachon, senior economic adviser at National Bank of Canada, said: "April will be a very tough month and we'll see a lot of volatility," with both Ontario and Quebec expected to bring down deficit-laden budgets.

She doubts the bank rate will drop below 5.5% this year, with the U.S. Federal Reserve Board still in a phase of raising rates. But longer-term interest rates — more important for house buyers and for business investment — should decline, she said.

The Washington Post reported yesterday that the Fed is expected to refrain from further tightening while markets remain unstable.

Jitec president Benoît Laliberté unveils the Vectoria desktop in Montreal yesterday.

This computer is 'virus-proof'

The Financial Post

MONTREAL — **Jitec Corp.**, a privately held company based in St-Hubert, Que., said yesterday it has developed the world's first virus-immune computer.

Jitec president Benoît Lalibertê said that Jitec's line of Vectoria desktop computers will be available with Intel 486 and Pentium chips and will be cheaper and faster than comparable computers.

Laliberté said the Vectoria line has a patented Electronic Virus Control EPROM chip which detects the movement of viruses through a computer's memory, rather than tracing their signatures. Existing anti-virus software can only find existing viruses, and must be updated regularly to protect computers from new viruses, he said.

The Vectoria does not need updating because it tracks viruses as they jump from one memory sector to another in a computer's memory, acting as a filter to detect and kill viruses.

The company will initially produce 150 computers a week and plans to offer its line coast-to-coast throughout Canada by May, 1995.

Smart-card maker opens in Montreal

The Financial Post

MONTREAL — **Gemplus Card International**, a French maker of smart-cards, has opened a Montreal office in the hope it will be chosen to develop smart-card technology for the UBI consortium, created by **Le Groupe Vidéotron ltée** for its "home electronic highway." **National Bank of Canada**, a partner in the UBI consortium, wants to offer customers the possibility of using smart-cards — plastic cards embedded with a computer-readable chip — to access money.

Optimistic British see recovery for battered C$

By Eric Reguly
The Financial Post

LONDON — British economists and dealers, who tend to place less emphasis on Canada's political uncertainties than their transatlantic counterparts, yesterday said the bruised C$ will edge upward as the Canadian economy expands.

Christopher Turner, an economist in London with Barclays de Zoete Wedd, the investment banking arm of Barclays Bank, thinks the C$ could touch $1.40 per US$ (US71.42¢ per C$) in the short term, but is likely to strengthen to $1.30 (US76.92¢), or close to it, within 12 months.

His analysis pays scant attention to the looming Quebec election, which must be held by fall, a topic that seems to preoccupy Canadians. The Parti Québécois plans a referendum on sovereignty if it defeats the Liberals.

"Canadians are more pessimistic than outsiders about the dollar," he said. "There is a tendency among most people at home to focus on the political issues of the day. Every country has its political problems."

Turner said the C$ has been oversold and will rise as the economy strengthens in a low-inflation environment, an event that will help Ottawa meet its deficit-reduction goals. "We think Canadian growth may come in higher than expected," he said.

The C$ slumped to a seven-and-a-half-year low of US71.48¢ on Monday. It closed Tuesday at US72.27¢, but fell again yesterday, to US72.12¢.

Many London economists consider the C$ a bargain compared to the US$. Adrian Cunningham of Union Bank of Switzerland in London even ventured to compare Canada to Italy. The lira and the C$ have been battered down, partly because of real or perceived political instability, to the point investors have a lot of purchasing power compared to other major currencies.

A dealer at a Canadian bank in London, who did not want to be identified, said he sees the C$ firming to $1.36 (US73.53¢) "in the next few weeks" because it has become too cheap.

He's not convinced that it'll get to $1.30 any time soon, though. "It'll take something fairly dramatic to see it at $1.30," he said. "You'll have to see really good growth without any inflation."

Economist Nick Parsons, in the London office of Canadian Imperial Bank of Commerce, is less optimistic about prospects for the C$ than some of his British counterparts.

He subscribes to Wood Gundy's line that the C$ could drop to 1986's low of US69.13¢. A Wood Gundy report from March 31 notes that "the central bank has had to become more tolerant of C$ depreciation to avoid a net tightening of monetary conditions."

Parsons doesn't think $1.30 is in the cards. "You would need to see a significant pause in the pace of the U.S. recovery first," he said.

"You need US$ weakness for an early return to $1.30."

Vidéotron's British unit gets licence

The Financial Post

MONTREAL — The British subsidiary of **Le Groupe Vidéotron ltée** is one of six companies to be awarded new telecommunications licences by the Britain's Department of Trade and Industry.

Videotron U.K. already offers cable service in London and Southampton to about 77,000 subscribers, 42,000 of whom take Videotron's British telephone service.

With its new licence, Videotron U.K. will extend its service to London's financial district, known as The City, and to Westminster, where Parliament and many government and private-sector offices are located.

"For us, this has enormous potential," Vidéotron spokesman Jean-Paul Galarneau said yesterday. Videotron U.K. will offer telephone, cable and its Videoway interactive television service, over fibre optic cables.

Galarneau said the small geographic size of The City and the large number of potential business customers there should add significantly to Videotron's British business.

In explaining why the British government granted the new licences, Technology and Trade Minister Patrick McLoughlin said the price of international telephone calls "is too high, and we must find innovative ways to bring it down."

The other licences went to **Sprint Corp.** and **IDB Communications Group Inc.**'s WorldCom unit, both of the U.S., **Telstra Corp.** of Australia, **Telia AB** of Sweden and the British company **Norweb PLC**.

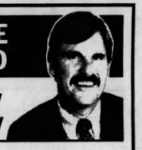
The licencees have already invested £260 million ($525 million) in the British telecommunications market while operating under different licences, McLoughlin said, and they are committed to investing another £100 million.

"The licensing of these operators amounts to a ringing endorsement of the U.K.'s championing of competition in all major sectors of the telecoms market," McLoughlin said.

Groupe Vidéotron holds about 60% of its British joint venture, with **BCE Inc.** holding 30% and 10% held by private British investors.

— with files from Bloomberg

OFF THE RECORD



By Barry Critchley

Cross off to Yorkton

FOR THE second time in three months, a member of the Cross family has moved on. In January, Carolyn, a portfolio manager with Royal Bank Investment Management Inc., left to learn Spanish, monitor her investments and become more immersed in business opportunities of Latin and South America, the base of many of her clients.

Now her husband Robert, a corporate financier with Gordon Capital Corp., has taken his leave. He is now director of corporate finance of Vancouver-based **Yorkton Securities Inc.**

In the past, a big part of that job was done from London by Jim Crombie and Tony Williams. "But Bob will do more," said Yorkton president Frank Giustra, while continuing to work closely with the London office.

Cross, who spent seven years at Gordon, will become a significant shareholder in the firm, which is active in financing junior mining companies and, through its Toronto-based institutional equity arm, financing new economy-type companies. Over the past year, Yorkton's equity capital has risen to $33 million from $18 million. Cross will buy his 10% over time. In South America, Yorkton has an office in Chile and representatives in Argentina, Bolivia, Ecuador and Peru.

"Those companies that are focusing on the natural resources in the emerging markets will be growth situations," Cross said. "And Yorkton is a growth situation because of its specialty."

Gordon said it's sorry to see him depart but wishes him well in his new venture. Along with corporate financiers David Beatty and Jans Meyer and analyst Philip Martin, Cross was a member of Gordon's mining team.

If Cross was going to move, it is no real surprise that he joined Yorkton. Of late, the two firms have got to know each other rather well. Over the past two years, for instance, they have been in syndicates that have raised hundreds of millions of dollars for junior mining companies including Adrian Resources Ltd., Caribgold Resources Inc., Golden Star Resources Ltd., Greenstone Resources Ltd., Joutel Resources Ltd., Metallica Resources Inc., Redstone Resources Inc., Southwestern Gold Corp. and Venezuelan Goldfields Ltd.

Watson on the move

KEITH Watson, a C$ equity portfolio manager with British Columbia's treasury, is also moving on. Watson is joining Vancouver-based money manager **Phillips, Hager & North Ltd.** as a US$ equity trader working alongside Janice Malone. Prior to hiring Watson, who starts April 18, Malone traded both US$ and C$ stocks. Now she will focus on C$ equities.

This hiring, the first since fixed income manager Tony Gage became president, is the first in a series of additions the firm is undertaking. As mentioned last week, it's looking to add to its fixed-income team.

By mid-year, PH&N should have opened an office in Toronto. "We want to be better able to compete in the small institutional business, particularly group RRSPs, defined contribution plans and personal investment management," Gage said. Mark DeCelles is moving from B.C. to run the office.

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